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SIPDIS

NEA/ARP FOR ANDREW MACDONALD
USAID FOR CHRIS KISCO

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TAGS: [AID](#) [EAGR](#) [EAID](#) [ECON](#) [EFIN](#) [ETRD](#) [GCC](#) [PREL](#) [PGOV](#)
PTER, YM
SUBJECT: RIYADH MEETING TO CHALLENGE BOTH GCC AND YEMEN

REF: A. SANAA 318
 [B.](#) SANAA 131
 [C.](#) SANAA 107

Classified By: Ambassador Stephen A. Seche for reasons 1.4(b) and (d).

[¶1.](#) (C) The upcoming GCC Secretariat meeting focused on Yemen presents opportunities, but also challenges in instituting aid effectiveness) both on the part of donor countries and Yemen itself. A willingness on the part of GCC member countries to pledge funding for Yemen, the poorest country in the Middle East, has been impeded by a difficulty to disburse funds since 2006. Yemen, for its part, suffers not only from a lack of funding, but also from limited absorptive capacity. With expectations in Yemen running high about the potential outcomes of the Riyadh meeting, the spotlight will be on both Gulf countries and Sana'a, each equally challenged to clear the bottlenecks in disbursing and receiving aid.

FUNDING THE MCKINSEY PLAN, EXTREMIST REHABILITATION CENTER

[¶2.](#) (C) Going into the Riyadh meeting, we may wish to encourage the GCC to focus on a few initiatives that could have a medium- to long-term impact. Riyadh participants could support a McKinsey plan to help implement three of the Top Ten Economic Reform priorities: sending Yemeni workers to GCC countries to increase remittance levels, eliminating inefficiency and corruption in the power sector, and modernizing the port city of Aden (REF C). The ROYG is seeking USD 3.5 million, having already committed to fund a large portion of the McKinsey plan, namely USD 5 million of the required USD 8.5 million. In addition, GCC support for an extremist rehabilitation center would symbolize regional commitment to counter-radicalization efforts in Yemen as part of a long-term investment in its neighbor's stability.

SENDING YEMENI WORKERS TO GCC MARKETS

[¶3.](#) (C) In the near term, GCC commitment to accepting greater amounts of Yemeni laborers into the Gulf markets would ease the social pressures resulting from 35-40% unemployment, as well as help Yemen economically, by allowing Yemenis to send home remittances to family members. Although it features prominently in the ROYG's own Top 10 Economic Reform program, labor mobility has not gained traction with neighboring governments due to lingering political sensitivities and more recently, security concerns surrounding the issue. (Comment: GCC member countries may argue the labor issue in the context of skilled versus unskilled labor, and may press for vocational training to forestall the need to accept Yemeni workers in the short-term. End Comment.)

CHALLENGES FOR YEMEN

14. (C) For its part, the ROYG needs to articulate a strategic vision for the international donor community. Having debuted the Top Ten Economic Reform priorities in August 2009, the ROYG has done little to implement the program and even less to involve the donor community in its execution. The implementation of a few of the Top Ten priorities, such as taking steps to solve water and electricity shortages, would send positive signals of the ROYG's concern to areas of instability in under-governed and under-served regions.

15. (C) Formally seeking an IMF adjustment program, Yemen will be tested on its commitment and ability to implement reforms, which will almost certainly include reducing the size of the civil service, removing diesel and other subsidies, and implementing a General Sales Tax. While these reforms are not new ideas, they have thus far proven politically and logistically difficult to implement. As conditions of an IMF program, they may carry more weight and be more palatable to the Cabinet (and to President Saleh). A successful IMF program will also signal to donors the sincerity and seriousness of Yemeni reform efforts and the ROYG's willingness to implement reforms when necessary.

COMMENT

16. (C) The most prominent challenge for the GCC will be to solve problems with Gulf-led aid flows, moving from pledging support to committing to projects, and eventually, to disbursing funds. At the same time, facing larger amounts of funding, the ROYG will be challenged to implement creative solutions to its own problems of internal security, corruption, and absorptive capacity. Western donors can help by providing the GCC with lessons learned from their own aid programs, and encouraging the Gulf states to adapt appropriate new mechanisms of aid delivery. END COMMENT.

SECHE